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CEILING OF ASSESSMENTS

Background information on the ceiling of assessments

Prepared by the Secretariat

Summary

Provides background information on the relevance of the 25 per cent ceiling of assessments as contained in Article 15.2 of the UNIDO Constitution and presents optional arrangements for consideration.

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Introduction

1. In its decision GC.6/Dec.11, paragraph (h), the General Conference requested the Board at its fifteenth session to review the relevance of the 25 per cent ceiling of assessments as contained in Article 15.2 of the UNIDO Constitution in the light of the discussion which had taken place at the General Conference. The present document is submitted in compliance with that request.

2. It may be recalled that during that discussion, the issue arose as to whether it was sound policy for the implementation of the UNIDO programme of work to rely so heavily on one or a few Member States with respect to the scale of assessments. It was suggested that it might be prudent to reconsider the present ceiling of the scale of assessments to secure the healthy operation of the Organization in the future.

I. LEGAL STATUS

3. Article 15.1 of the Constitution of UNIDO provides the legal framework for the apportionment of regular budget expenditures in accordance with a scale of assessment established by the Conference. Article 15.2 provides the legal framework for the basis of preparation of the UNIDO scale and states:

> "The scale of assessments shall be based to the extent possible on the scale most recently employed by the United Nations. No Member shall be assessed more than twenty-five per cent of the regular budget of the Organization."

4. Therefore, the 25 per cent ceiling represents the maximum possible contribution of any one Member State of UNIDO. There is, however, no requirement in Article 15.2 of the Constitution that a Member State is to be assessed at that level; i.e., that another Member State would necessarily have to take the place of the United States of America in being assessed at 25 per cent, with the rest of the regular budget being apportioned accordingly among the other Member States.

5. The contribution of a Member State is determined on the basis of the scale of assessments established by the Conference in accordance with Article 15 of the Constitution, and is not in any way affected by the existence of the 25 per cent ceiling except in so far as it functions as an upper limit beyond which a Member State may not be required to contribute, even if the application of the scale of assessments indicates otherwise. Therefore, it is useful to note that while changes to the scale of assessments may be made by the Conference, any change of the 25 per cent ceiling would require an amendment to the Constitution. The procedures to amend the provisions of Article 15 of the Constitution are described in chapter V of the present document.

II. PRACTICE AT UNIDO

6. With respect to the preparation of the UNIDO scale of assessments, the variables affecting the technical adjustments of the scale have been consistently applied since the inception of UNIDO until the 1994-1995 fiscal period. Those variables included:

(a) Basing the UNIDO scale on the scale most recently employed by the United Nations and adjusting the scale to account for differences between the memberships of the United Nations and UNIDO;

(b) Setting the rate of assessment of any Member State whose ceiling would otherwise be higher than 25 per cent;

(c) Ensuring that the scale of assessments added to 100 per cent;

(d) Fixing the rates of assessments of certain Member States at the floor rate of 0.01 per cent.

The variables described above have been consistently applied at UNIDO as well as at the International Labour Organization (ILO), the Food and Agriculture Organization of the United Nations (FAO) and the World Health Organization (WHO).

7. Following the announcement of the withdrawal of the United States of America from UNIDO, the 1996-1997 scale of assessments was prepared on the basis of the above variables with the exception of (b) above, which did not apply. In addition, and consistent with past practice, the budget level for the 1996-1997 biennium had been reduced to offset the reduction of assessed contributions income resulting from the withdrawal of that Member State. The required revisions of the scale rates resulted in increases in the rates, but not in the financial contribution, of most of the Member States. The rate of the new major contributor was calculated at 21.4528 per cent for 1996. The 10 major contributors are assessed as follows:

Member State	Rate in 1996
Japan	21.4528
Germany	12.5680
France	8.9056
United Kingdom	7.3872
Italy	7.2239
Russian Federation	6.1850
Spain	3.2836
Brazil	2.2516
Netherlands	2.2064
Australia	2.0570
Total	73.5211

Ten Member States, therefore, are assessed 73.5211 per cent of the net regular budget expenses of the Organization in 1996. Therefore, the 25 per cent ceiling has limited relevance to the 1996-1997 scale of assessments of UNIDO.

III. PRACTICES IN OTHER ORGANIZATIONS

8. In order to provide background information with respect to the relevance of the 25 per cent ceiling at UNIDO, practices in respect of the preparation of the scales of assessments of the following Organizations are summarized in the present chapter: United Nations, FAO, International Civil Aviation Organization (ICAO), ILO, International Maritime Organization (IMO), United Nations Educational, Scientific and Cultural Organization (UNESCO), WHO, World Meteorological Organization (WMO) and the International Atomic Energy Agency (IAEA). The information has been extracted either from the update of the Joint Inspection Unit (JIU) study on budgeting methods (ACC/1995/FB/CM/13, 5 October 1995) or from the most recent official documents of the respective organizations.

A. United Nations

9. The General Assembly determines the scale of assessments for the financial year on the advice of the Committee on Contributions. In its resolution 48/223, section B, paragraph 1 (e) of 23 December 1993, the General Assembly requested the Committee on Contributions to recommend to the General Assembly at its forty-ninth session a scale of assessments for the period 1995-1997 on the basis of certain elements and criteria including, *inter alia*, a floor rate of 0.01 per cent and a ceiling rate of 25 per cent. In the current scale methodology and its application, the capacity to pay is the fundamental criterion for determining the scale of assessments. The methodology and criteria currently used to approximate the capacity to pay is comprised of seven components, one of which states the following:

> "The rates of assessment of Member States may not be lower than 0.01 per cent (floor rate) or exceed 25.00 per cent (ceiling rate)".

10. There exists some general dissatisfaction with the existing methodology and criteria for determining the scale of assessments; the Assembly therefore requested the Committee on Contributions to undertake a comprehensive review of all aspects of the existing methodology (General Assembly resolution 48/223, sections A, B, C, of 23 December 1993). General Assembly resolution 48/223, section C, agreed on the establishment of an ad hoc body to study the implementation of the principle of capacity to pay in determining the scale of assessments. In response to that resolution, the Ad Hoc Intergovernmental Working Group on the Implementation of the Principle of Capacity to Pay was established and its report, as contained in General Assembly document A/49/897, dated 8 May 1995, was submitted to the General Assembly at its forty-ninth session. The Working Group concentrated on clarifying, from a technical viewpoint, what constituted capacity to pay and on providing practical advice on how that principle could best be implemented in practice. The Group noted that decisions to establish a ceiling and a floor as an element of the methodology for the determination of the scale had been taken by the General Assembly on non-technical grounds. The Group, therefore, did not express its views on these decisions.

11. The General Assembly established, in compliance with General Assembly resolution 49/143, a High-level Open-ended Working Group on the Financial Situation of the United Nations. At present, the Group is discussing all aspects of issues bearing on the financial situation including, *inter alia*, payment of contributions in full and on time; the problem of arrears in the payment of contributions; the cash flow situation and the methods of calculating the scale of assessments. The question of lowering the 25 per cent ceiling on assessments to 15 or 20 per cent is expected to be examined within this context. In this regard, the Secretary-General has called for a special session of the General Assembly to meet during 1996 to review the financial situation. Assuming that the recommendations of the Working Group are taken into account by the Committee on Contributions in its work, the UNIDO methodology for preparing its scale would embody the changes.

B. Food and Agriculture Organization (FAO)

12. The practice of FAO to derive its scale of contributions directly from the United Nations scale of

assessments has been followed since 1955 (cf. document FC 81/7 and FAO Conference resolution 42/55). The United Nations scale of assessments is adjusted to take into account differences in membership, with the exception of contributions from Associate Members, for which calculations are made on the same basis as contributions for Member Nations, but reduced by four-tenths. The Conference adopts the scale of assessments to be apportioned to Member Nations. In this respect, the rate of assessment for the United States of America is set at 25 per cent.

13. At the twenty-second session of the FAO Conference (November 1983), several members expressed reservations regarding the criteria on which the current United Nations scale had been based. However, the Conference agreed that departure from the practice of deriving the FAO scale directly from the United Nations scale would lead to duplication of the work of the United Nations Committee on Contributions, would have undesirable repercussions throughout the United Nations system and would lead to governing bodies of FAO dedicating an inordinate amount of time on this administrative matter in efforts to develop a viable alternative.

C. International Civil Aviation Organization (ICAO)

14. The principles that govern the calculation of scales of assessments at ICAO are contained in ICAO Assembly document A31-DP/1 AD, dated 15 September 1995, on information regarding calculation of scales of assessments. The principles that govern the calculation include: United Nations scale weighted 75 per cent; aviation importance (25 per cent), which is measured by international air service (75 per cent) and domestic (25 per cent) based on the tonnage kilometres. The rate of the United States of America is set at the maximum rate of 25 per cent.

D. International Labour Office (ILO)

15. The governing body of ILO, at its 262nd session in March-April 1995 had before it document GB.262/PFA/GMA/1 on the scale of assessment of contributions to the budget for the 1996-1997 financial period, that contains the following information. The scales of assessment used for determining the contributions of the Member States of ILO have since 1977 been based on the United Nations scale of assessment of its Member States. The ILO scale of assessments is adjusted arithmetically for differences in membership between the two organizations, and the maximum and minimum rates of assessment are set at 25 per cent and 0.01 per cent respectively, as in the United Nations scale. The rate of the United States of America is set at the maximum rate of 25 per cent.

16. The Committee on Allocation Matters examines and recommends the scale to the governing body for adoption by the Conference.

E. International Maritime Organization (IMO)

17. Resolution A.726 (17), of 7 November 1991, of the IMO Assembly explains the methodology used by IMO in the apportionment of regular budget expenditure between the Member States. Three principles govern the calculation of the total contribution per cent. These include a minimum assessment calculated as 2.94 per cent of the total budget assessment divided equally among the Members (50 per cent for Associate Members). The balance is divided by 12.5 per cent on the United Nations scale and 87.5 per cent on the gross registered [merchant shipping] tonnage of the country. Total assessment is the sum of minimum, basic and tonnage assessments. Panama, the major contributor in 1995, was assessed 11.55 per cent.

F. United Nations Educational, Scientific and Cultural Organization (UNESCO)

18. In accordance with Article IX of the UNESCO Constitution and Article 5.1 of the financial regulations, its General Conference determines the scale of assessments for the contribution by Member States for each financial period. The scale is based on that of the United Nations, suitably adjusted to take into account the difference in membership between the two organizations.

19. At its fourth special session, the UNESCO Executive Board recommended that any shortfall arising from withdrawals should not result in any increase in the assessed contributions of any of the Member States (4X/EX/Decision 2, II.6). Consequently, the approved budget for 1986-1987 included for purposes of transparency the programme, activities and services corresponding to the contributions of the three States that had withdrawn. In the appropriation resolution, the theoretical total of contributions payable for 1986-1987 included, for accounting reasons, the sum equivalent to the contributions that the States who had withdrawn from the Organization would have been required to pay had they remained Members. The scale of assessments for 1986-1987 thus attributed to the Member States of the Organization 70.1 per cent of the theoretical amount to be paid, and under a separate entry, attributed 29.9 per cent to the three States that had ceased to be Members of the Organization. The 1996 rate of assessment for Japan, the major contributor, is 15.1889 per cent; however, as this rate is 15.1889 per cent of

69.6322 per cent, the effective rate of assessment is 21.8130 per cent of the total assessed contributions. The disadvantage of such a procedure is that, while the rates of assessment for Members may be more closely in line with those of the United Nations, the methodology is not fully transparent.

G. World Health Organization (WHO)

20. The scale of assessments is fixed on the basis of the United Nations scale of contributions adopted by the General Assembly, and adjusted for the difference in membership.

21. The principles and criteria currently applied in calculating the WHO scale of assessments were summarized in World Health Assembly document A/48/28 of 14 March 1995, on scale of assessments for the financial period 1996-1997. The document states the following:

> "The latest available United Nations scale of assessments shall be used as a basis for determining the WHO scale of assessments, taking account of:
>
> (a) the difference in membership; and
>
> (b) the establishment of minima and maxima.
>
> The scale of assessments in WHO should follow as closely as possible that of the United Nations, and:
>
> (1) as a matter of principle, the maximum contribution of any one Member State in the WHO scale of assessments shall not exceed 25 per cent of the total;
>
> (2) the minimum assessment in the WHO scale shall conform to that established in future scales of assessments of the United Nations."

22. The 1996 rate of assessment for the United States of America, the major contributor, is set at 25 per cent.

H. World Meteorological Organization (WMO)

23. As noted in document Cg.XII/PINK 59 of the twelfth Congress of WMO, 20 June 1995, on proportional contributions of members, the establishment of the WMO scale of assessments was examined at that Congress. It adopted a scheme that would move progressively towards a scale that would come closer to that of the United Nations by the year 1999. At that time, the scale—which is currently weighted by 75 per cent of the WMO scale for 1994-1995 and 25 per cent of the United Nations scale for 1996—will be based on the United Nations scale for 1997 adjusted for differences in membership. For each year the minimum rate of assessment of 0.02 per cent is retained. The major contributor, the United States of America, is assessed 24.55 per cent in 1996 and will be assessed 24.71 per cent in 1999.

I. International Atomic Energy Agency (IAEA)

24. The base rate of the IAEA scale of assessments is based on the United Nations scale adjusted for differences in membership (used for the Working Capital Fund and technical cooperation). For the regular budget, the final scale takes into account the safeguards financing formula that shields developing countries in respect of safeguards costs.

25. The major contributor, the United States of America, is assessed 26.091 per cent in 1996.

IV. SUMMARY OF PRACTICES IN OTHER ORGANIZATIONS

26. Until the present, the relevance of the 25 per ceiling of assessments as applied at UNIDO in the preparation of its scales of assessments has been comparable to the practices undertaken at ILO, FAO and WHO. It should be noted that the United States of America continues to be the major contributor in those three Organizations.

27. While the United States of America is a member of ICAO, IMO, WMO and IAEA, the preparation of the scales of assessments for these Organizations takes into account not only the United Nations scale as a basis but also another element associated with the mandate of each Organization.

28. The United States of America is not a member of UNESCO. However, the scale of assessments of that Organization includes theoretical rates of assessments and amounts for its non-members. The exclusion of these non-members from the assessed contribution calculations effectively results in percentage shares of assessed contribution calculations on a similar basis to that applied by UNIDO.

29. The question of the relevance of the 25 per cent ceiling of assessments, as contained in Article 15.2 of the UNIDO Constitution, should be considered within the context of the interpretations, procedures and applications of the ceiling in other organizations in the United Nations system, bearing in mind the relevant studies being undertaken at the United Nations, the need to avoid duplication of work and the need to secure a stable

financial environment for the operation of UNIDO programmes in future.

V. OPTIONS AND IMPLICATIONS

30. The present document provides background information on the relevance of the 25 per cent ceiling of assessment in support of the question of whether it is sound policy for UNIDO to rely so heavily on one or only a few Member States with respect to the scale of assessments. The Organization may need to focus its attention on some realistic options with a view to arriving at a practical and cost-effective solution that may, over time, shift the burden of assessments from one or only a few Member States to a few more.

31. On the basis of the information elaborated in the present document, Member States may wish to consider the following options as summarized below:

(a) Option 1: Continue to follow the United Nations system-wide approach

32. This option would enable the Organization to remain consistent with past practice, i.e., the UNIDO scale of assessment would, to the extent possible, be based on the United Nations scale. In the event that the General Assembly sets the ceiling of assessments at a lower level, for instance, 15 or 20 per cent, the UNIDO scale of assessment would, to some extent, take into account the change in the ceiling at the United Nations since the rates of assessment of Member States not affected by the ceiling would be adjusted to offset the change in ceiling. This option is acceptable system-wide and would avoid duplication of the work of the United Nations Committee on Contributions and the High-level Open-ended Working Group on the Financial Situation of the United Nations.

(b) Option 2: Amend the provisions of Article 15.2 of the Constitution

33. To change the provisions on the 25 per cent ceiling contained in Article 15 of the Constitution would require an amendment of the Constitution of UNIDO. In accordance with Article 23.2 of the Constitution, an amendment to Article 15 would require the following steps:

> "Except as specified in paragraph 3, an amendment shall come into force and be binding on all Members when:
>
> "(a) It is recommended by the Board to the Conference;
>
> "(b) It is approved by the Conference by a two-thirds majority of all Members; and
>
> "(c) Two-thirds of the Members have deposited instruments of ratification, acceptance or approval of the amendment with the Depositary."

The implication associated with this option is that the Organization would need to invest considerable time and resources if the establishment of appropriate criteria for establishing a new ceiling of assessments is desired.

VI. ACTION REQUIRED OF THE COMMITTEE

34. The Committee may wish to take note of the information contained in the present report and recommend appropriate action to the General Conference, through the Industrial Development Board.